

**Fiscal Services Division**  
**Legislative Services Agency**  
**Fiscal Note**

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HF 847 - Property Tax Reform II (LSB 3402 HV.1)

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Fiscal Note Version – As Amended and Passed by the House

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**Description**

House File 847 creates a Statewide Property Assessment Appeal Board to hear appeals of local boards of review for the assessment year beginning January 1, 2007. The appellant still may appeal directly to District Court, rather than going to the Statewide Board. An appellant who first appeals to the Statewide Board, may then appeal the Statewide Board's decision to District Court.

The Bill requires local assessors to use the forms and apply the guidelines contained in the Real Property Appraisal Manual prepared by the Department of Revenue. Willful disregard of the assessment rules, forms, and guidelines may result in the Department withholding the county's or city's homestead property tax credit reimbursements. The Bill provides for requesting permission from the Department of Revenue to use alternative guidelines and manuals and for appeal of the withheld funds.

The Bill ties together the taxable value growth limitations for residential, agricultural, commercial, and industrial property by limiting the increase to the lowest percentage for all of those classes or 4.0%, which ever is lower. This is retroactive to January 1, 2005, assessment year.

**Assumptions**

1. The Statewide Property Assessment Appeal Board estimate was based on the following assumptions:
  - a. The Board will have six employees beginning January 2007: three board members, an Executive Secretary, General Counsel, and a secretary.
  - b. The three board members' salaries will be comparable to a District Court Judge (\$112,000, plus 17.5% for benefits).
  - c. The Executive Secretary's salary will be similar to that of an executive secretary or executive director of a small agency (\$73,000, plus 26.0% for benefits).
  - d. The General Counsel's salary will be comparable to a mid-range Deputy Attorney General II salary (\$63,000, plus 26.0% for benefits).
  - e. The secretary's salary will be comparable to a mid-range Secretary 2 salary (\$33,000, plus 30.0% for benefits).
  - f. An Administrative Law Judge 2 is estimated to cost \$75,000 plus 26.0% for benefits. It is assumed the Board will not hire Administrative Law Judges until the second year of operation, and then according to demand.
  - g. Additional costs for office space, office equipment, and offices supplies will be incurred. To the extent that the Department of Revenue has space, equipment, and supplies available, these costs will be reduced. These costs are not included in the estimate.
  - h. The Board will likely incur travel and lodging expenses which are not estimated here.
  - i. The Board may request that the Department of Inspections and Appeals have an Administrative Law Judge hold assessment appeal hearings. The estimated cost of a hearing is \$362. There is no estimate of how many hearings will be handled in this manner.

- j. It is assumed the Department of Revenue will request funding from the General Fund to operate the Board.
  - k. In 2003, 456 local Board of Review assessment rulings were appealed to District Court. This type of case falls in the category of law and equity cases in a time-usage study conducted by the Judicial Branch. The average cost for cases of this type (including all outcomes – dismissals, settlements, and trial) was \$203 per case. The maximum savings if all cases are diverted would be approximately \$93,000. For those appeals of the Statewide Board's rulings, the Courts would experience some savings as the cases would be limited to corrections of errors instead of a de novo review.
2. The estimate for tying together of the taxable valuation growth for residential, agricultural, commercial, and industrial classes of property was based on the following assumptions:
- a. For this example, the growth in property value and new construction would follow the same pattern in assessment years 2005 through 2014 as occurred between 1995 and 2004.
  - b. The agricultural class had the smallest growth rate for each assessment year 1995 through 2004 and would likewise have the smallest growth and provide the limit on growth for assessment years 2005 through 2014.
  - c. The pattern of rollbacks projected by the Department of Revenue for commercial and industrial valuations when tied to agricultural valuation growth would be repeated proportionately in assessment years 2005 through 2014, since all other growth patterns were being repeated for this projection.
  - d. The consolidated tax rate is \$35 per \$1,000 taxable valuation. The Uniform Levy remains at \$5.40 per \$1,000 of taxable valuation.
  - e. In regard to the School Foundation Formula, State Foundation Aid, paid from the General Fund, will increase to offset reductions in Uniform Levy revenues. The Additional Levy rate will increase to accommodate a decrease in taxable valuations.

### **Fiscal Impact**

The Property Assessment Appeal Board will cost an estimated \$305,000 in salaries and benefits for the last six months of FY 2007, and an estimated \$611,000 for the whole year in FY 2008. There will be additional costs for office space, equipment, supplies, and for travel. If the Board hires administrative law judges, each one will increase salary and benefits costs by approximately \$94,000 annually. Each appeal referred to the Department of Inspections and Appeals to be heard by an administrative law judge will cost approximately \$362.

The Courts will likely experience some cost savings from reduced appeals of local Board of Review assessment appeal rulings, but these savings are not likely to be significant.

Creating rollbacks based on tying together residential, agricultural, commercial, and industrial classes taxable value growth will reduce the taxable valuations. If property tax rates are not increased, there will be a resulting decrease in revenues from property taxes. For example, if the pattern of the last ten years is repeated in the next ten years, the following reductions would occur if levy rates are not increased.

<u>Fiscal Year</u>	<u>Assessment Year</u>	<u>Proposed Law Taxable Value Change</u>	<u>\$35.00 Consolidated Levy</u>	<u>\$5.40 Uniform Levy</u>
2007	2005	\$ -1,479,715,312	\$ -51,790,036	\$ -7,990,463
2008	2006	-2,286,120,491	-80,014,217	-12,345,051
2009	2007	-2,665,145,744	-93,280,101	-14,391,787
2010	2008	-2,384,811,937	-83,468,418	-12,877,984
2011	2009	-2,682,261,070	-93,879,137	-14,484,210
2012	2010	-2,284,443,842	-79,955,534	-12,335,997
2013	2011	-3,828,746,098	-134,006,113	-20,675,229
2014	2012	-4,854,202,455	-169,897,086	-26,212,693
2015	2013	-7,250,859,440	-253,780,080	-39,154,641
2016	2014	-7,641,400,795	-267,449,028	-41,263,564

This example repeats the growth pattern of the last ten years and shows that revenues for taxing authorities would decrease by approximately \$51.8 million in the first year. The reduction would continue, reaching a \$267.4 million reduction after ten years. To the extent that taxing authorities can raise levy rates within established limits, they would not experience revenue reductions. The Uniform Levy decrease would be offset by increased State Foundation Aid for school districts, at a cost to the General Fund of \$8.0 million in the first year increasing annually to \$41.2 million after ten years. The \$5.40 Uniform Levy is included in the \$35.00 consolidated levy, and is identified separately to show the effect on the State General Fund.

Over the ten-year example, the proportion of property taxes paid by residential taxpayers would increase by 2.5%, agricultural taxpayers' proportion of taxes would increase by 0.7%, and commercial and industrial taxpayers' combined proportion would decrease by 3.3%.

These property tax estimates should be treated as an example since projected amounts will vary to the extent that the next ten years' growth differs from the preceding ten years.

### **Sources**

Department of Management  
Department of Revenue  
Department of Inspections and Appeals  
Office of the Attorney General  
Judicial Branch  
State Employees Salary Book  
Iowa State Association of Counties

/s/ Holly M. Lyons

April 25, 2005

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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